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WAR FOOD ADMINISTRATION
Office of Marketing Services
Washington 25, D. C.

May 4, 1945

To: Administrator

From: Director

Subject: Economic Justification for the Issuance of War Food Order 1

Food Distribution Order 1 became effective January 18, 1943. It was prepared at the request and with the approval of the Director of Economic Stabilization. In 1944 the designation was changed to War Food Order 1. Twelve amendments to the order have been issued. These involve slight substantive changes or temporary suspensions of minor provisions.

The most important feature of the order is the prohibition against consignment selling, returns, credits, and discounts. The practice of selling bread and other bakery products on consignment grew out of a highly competitive situation in the baking industry. This practice caused enormous waste of food products which were plentiful before 1942, but which rapidly became less plentiful after our entry into the war and which are in short supply at present. The principal items, other than flour, used in nearly all bakery products are milk, sugar, and shortening. All of these items are presently under allocation. Sugar and shortening are rationed.

It is estimated that in the calendar year 1942 over 500,000,000 pounds of bread, representing approximately 5 percent of all bread delivered by bakers for resale, was returned the following day and was either replaced with fresh bread or credited to the dealer's account. Approximately half of this bread, or about 250,000,000 pounds, was sold for animal feed, burned, or dumped as garbage. As a result, in 1942 there were diverted from food channels approximately 6,000,000 pounds of shortening, 10,000,000 pounds of dry milk, and 9,000,000 pounds of sugar, as well as various other ingredients used in making bread. These figures are concerned only with sales of bread. Waste in connection with the return of other bakery products was proportional.

Most grocers and others purchasing bread, cakes, and other bakery products sell less than 100 such items per day. The enormous rate of returns above noted was made up principally of only a few items

returned each day by several hundred thousand merchants, such as grocers and restaurant keepers. As these figures demonstrate, the practice of returning unsold bakery products was well nigh universal.

Early in 1942 increased costs in the baking industry were threatening a rise in the price of bread. The expense in connection with the practice of consignment selling represented a substantial part of the baker's costs. It was, therefore, rapidly becoming apparent that the diversion of milk, sugar, and shortening to non-food uses as above described could not be permitted under war conditions. Accordingly, in 1942, the Director of the Office of Economic Stabilization requested a survey of the baking industry to determine the facts regarding wasteful practices.

An investigation of the facts by the Federal Trade Commission and other Government agencies resulted in a report which was made available to you and which supports the conclusions that consignment selling and the return of bread to bakers should be eliminated by a Government order for the duration of the war, that such order should provide penalties by way of fine and imprisonment for its violation, and that the prohibition against returns should be made absolute since any exception would open the way to evasion. It also supports the conclusions that the responsibility be placed squarely upon the retailer to see that bakery goods delivered to him are in saleable condition, and that acceptance of the goods by him should preclude their return. Unless this were done it would be possible for a retailer, for example, to tear a bread wrapper intentionally or otherwise damage bakery goods delivered to him, and claim subsequently that the goods reached him in such damaged condition. A very obvious subterfuge would be to store the goods in such a manner that they would become moldy or stale, followed by a claim that they were delivered in that condition. The ease with which such devices might be employed to circumvent the prohibition against consignment selling makes it imperative that no exceptions should be permitted and that the saleability or non-saleability of the goods should be determined immediately upon delivery and not thereafter.

On December 18, 1942 the Baking Industry Food Advisory Committee of the War Production Board (this committee was later transferred to the Department of Agriculture, subsequently to the War Food Administration) recommended to the Chairman of the War Production Board, the Secretary of Agriculture, and the Director of Economic Stabilization that the United States Government issue an order which would provide economies of manufacture and distribution to prevent waste of food. Among several restrictions, the Committee recommended as the most important a prohibition against consignment selling, making both the seller and the purchaser liable and providing severe penalties for selling on consignment, or returning or accepting the return

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of bakery products previously sold. The Committee also recommended that the order be so drafted as to prevent the employment of any subterfuge to defeat its purpose.

When the order became effective in January 1943 bakers were prohibited from selling on consignment or accepting the return of bakery products but purchasers of such products for resale were not made liable. A few months' experience with the order, however, proved conclusively that purchasers of bakery products for resale, such as grocers and restaurant keepers and their agents and employees, would have to be held liable if the order was to prove effective, and in 1943 the order was amended accordingly. The provisions with respect to refunds, credits, exchanges, discounts, gifts or allowances for or in connection with the sale or delivery of bakery products are designed to close the door against subterfuges intended to evade the consignment selling prohibition in accordance with the recommendations of the Baking Industry Food Advisory Committee.

The order prohibits the use in the baking of bread of more than 6 parts of sugar and 3 parts of shortening to 100 parts of flour. Both sugar and shortening are in such short supply that they are allocated internationally as well as within the United States. In addition, both commodities are strictly rationed in the United States. Although, prior to the issuance of the order, greater quantities of sugar and shortening were frequently used in the baking of bread, it has been found that the use of not more than the indicated proportions of these ingredients produces palatable and nutritious bread and furthers maximum utilization and distribution of the limited supply of sugar and shortening. Milk is also under allocation and the order originally limited the proportion of milk used in baking bread. This limitation was subsequently removed. Milk is one of the most nutritious and desirable ingredients contained in bread, and it was felt that, within reasonable limits and to the extent available, maximum amounts of this commodity should be used and reliance for the prevention of waste placed upon the consignment prohibition and related provisions above described.

That provision of the order which requires bread and rolls to be enriched by the addition of artificial vitamins is designed to insure maximum nutritive value per unit of bakery product, thus resulting in the most effective distribution of the food materials involved.

Among the minor provisions of the order are the prohibitions with respect to varieties, twisting or cross panning, and the furnishing of equipment. Before the order was issued many bakers made large varieties of bread and rolls. In some cases over 100 varieties of each of these items were produced. Twisting and cross panning were

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also customary. All of these practices waste materials and manpower and none of them adds either to the palatability or nutritional value of the product. The order, therefore, limits the number of varieties and prohibits the other practices. The prohibition with respect to the furnishing of bread racks or other equipment was adopted for the purpose of conserving critical materials as well as manpower. All of these minor provisions were recommended by the Baking Industry Food Advisory Committee for the purpose of furnishing economies of manufacture and distribution and preventing waste.

Your attention is called to the fact that the forthcoming amendment to the order will eliminate from its provisions the following items: crackers, cookies, ice cream cones, wafers, pretzels, matzoth, matzoth products, rusk, zwieback, toast, and bread crumbs. These products are low in moisture content and are suitable for human consumption for considerable periods after manufacture. The history of the manufacture and distribution of these items does not show that there has been excessive waste, either by their destruction or diversion to non-human consumption. Accordingly, it is believed that the objectives of the order can be achieved without including these products, and it is proposed that they be specifically excluded from the definition of "bakery products" as set forth in the proposed amended order.

/s/ C. W. Kitchen